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ABSTRACT

This report on need analysis and student aid delivery issues in higher education describes four sets of actions taken by the Advisory Committee on Student Financial Assistance. First, the Committee voted to forward to the Congress specific recommended actions concerning technical aspects of need analysis which are designed to improve the delivery of student aid and the consistency of need analysis with Congressional intent. These recommendations for immediate change affect need analysis for the 1989-90 academic year and would: (1) make minor modifications in the independent student definition; (2) explicitly permit aid administrators to use professional judgment to assist low income independent students with families; (3) eliminate veterans' benefits from the family contribution schedule; and (4) eliminate certain inconsistencies in the Higher Education Act. Second, the Committee voted to urge Congress to consider suggested, long-term improvements to need analysis. Third, the Committee provided formal comments for two items in response to notices in the "Federal Register" as required by statute. Finally, the Committee identified several issues for further study which will form part of the Committee's research agenda. (JB)

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Interim Report To The Congress Of The United States on Selected Need Analysis and Student Aid Delivery Issues

Advisory Committee on Student Financial Assistance

April, 1988

HE 026 434

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SUMMARY

Pursuant to its statutory charge, the Advisory Committee on Student Financial Assistance has conducted two meetings this year to consider issues concerning need analysis and the delivery of student aid. At these meetings, the Committee received oral comments and written materials from representatives of the Department of Education and the student aid community.

This interim report conveys to the Congress four sets of actions taken by the Committee on these issues. First, the Committee voted to forward to the Congress specific recommended actions concerning technical aspects of need analysis, which are designed to improve the delivery of student aid and the consistency of need analysis with Congressional intent. These recommendations for immediate change affect need analysis for the 1989-90 academic year. Second, the Committee voted to urge Congress to consider suggested, long-term improvements to need analysis. The Committee will provide to Congress assessments of the implication of these suggested changes. Third, the Committee provided formal comments for two items in response to notices in the *Federal Register* as required by statute. Finally, the Committee identified several issues for further study which will form part of the Committee's research agenda. The Committee will report to Congress on each of these issues as soon as possible. These issues include statutorily mandated studies as well as other issues of importance. Each of the four sets of actions is presented below.

Recommended Immediate Changes to Need Analysis

- Make minor modifications to the independent student definition to eliminate confusion concerning the years in which resources must be demonstrated, simplify the definition without significant impact, and avoid large numbers of students automatically becoming independent in their third and fourth years of educational study;

- Explicitly permit aid administrators to use professional judgment to assist low income independent students with families, whose income is less than the Congressional Methodology's standard maintenance allowance, by adjusting cost of attendance;

- Eliminate veteran's benefits from the Pell Grant Family Contribution Schedule and the Congressional Methodology and consider such benefits as resources in order to ensure consistency in the treatment and simplify the administration of these benefits; and

- Eliminate inconsistencies in the Higher Education Act and regulations that could result in double-counting academic-year student earnings as resources for the academic year they are earned and base year income in the following year by treating all non-need-based earnings as base year income for the next academic year.

Suggested Long-Term Changes

- Continue to recognize the needs of displaced homemakers and dislocated workers but address these needs through explicit notation of these categories of applicants in the professional judgment section of the Higher Education Act; and

- Eliminate the conflict between the tax code and the Higher Education Act that will not permit certain students' need to be determined using the simplified needs test.

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Comments on Notices in the *Federal Register*

- Congressional intent regarding notification of the source of student aid can be achieved through modification of institutional award letters provided to students to specifically identify Federal student aid; and

- The Committee supports the Secretary's proposed definition of displaced homemaker as one who has not worked for 5 years with the caveat that mandatory work which is part of a government assistance (e.g. workfare) not be considered within the definition of work.

Issues for Further Study

- The number, type, costs, and effects on students of multiple data entry processors;

- The practice of institutional lending;

- The Secretary's and other proposals to simplify need analysis;

- The potential effects of the Secretary's default initiative;

- The redistributional and delivery system effects of the Congressional Methodology; and

- The degree to which student aid programs serve and benefit various student subpopulations.

The Committee will study these issues and report to Congress as soon as possible.

BACKGROUND

Through the reauthorization of the Higher Education Act (hereafter the Act) in 1986 and the Higher Education Technical Amendments in 1987, the Congress created the Advisory Committee on Student Financial Assistance and charged the Committee with, among other things, the responsibility to:

> (1)develop, review, and comment annually upon the system of needs analysis established under section 411A through 411E and part F of this title;
> (2)monitor, apprise, and evaluate the effectiveness of student aid delivery and recommend improvements;
> (3)recommend data collection needs and student information requirements which would improve access and choice for eligible students under this title and assist the Department of Education in improving the delivery of student aid and in assessing the impact of legislative and administrative policy proposals;
> (4)review and comment upon, prior to promulgation, all regulations affecting programs under this title, including proposed regulations;
> (5)recommend to the Congress and to the Secretary such studies, surveys, and analyses of student financial assistance programs, policies, and practices, including the special needs of low-income, disadvantaged, and nontraditional students, and the means by which the needs may be met, but nothing in this section shall authorize the committee to perform such studies, surveys, or analyses;
> (6)review and comment upon standards by which financial need is measured in determining eligibility for Federal student assistance programs; and
> (7)appraise the adequacies and deficiencies of current student financial aid information resources and services and evaluate the effectiveness of current student aid information programs.

The Committee, consisting of eleven members appointed by the President *pro tempore* of the Senate, upon recommendation of the Majority and Minority Leaders, the Speaker of the House, upon the recommendation of Majority and Minority Leaders, and the Secretary of Education, is actively discharging these and other responsibilities. The Committee meets approximately bimonthly to hear testimony and consider issues related to its statutory charges. The Committee periodically reports to Congress, including its annual report, and notifies the Secretary of Education of these reports.

COMMITTEE ACTIONS

During the meeting of the Advisory Committee on Student Financial Assistance, which took place on April 7 and 8, 1988, the Committee took a series of actions. These actions were based on oral comments and written materials received at both its January and April meetings. Representatives of the financial aid community, associations, servicers, and the Department of Education provided these comments and materials. Committee actions range from recommending to the Congress specific changes for need analysis to identifying issues for further study.

Committee Recommendations

The Advisory Committee voted to recommend that the Congress immediately take the following actions concerning need analysis for the 1989-90 academic year.

Independent Student Definition

Description: The Committee supports the intent of the independent student definition contained in the legislation. However, the Committee has identified potential problems in the implementation of the definition that result in confusion, undue burden, and unintended consequences. These include:

- A steadily increasing number of questions on the application from 6 to 14 by 1992-93 under the Department of Education's recent interpretation of the Act;
- Two conditional characteristics for independency that add questions to the form but are unlikely to screen large numbers of students; and
- An independency "creep" resulting in virtually all third and fourth year undergraduate students at many institutions who are not claimed, becoming independent solely by virtue of considering aid as part of the $4,000 resource requirement.

Action: The Committee recommends, that the Congress revise section 480(d), definition of independent student, to read:

> The term independent, when used with respect to a student, means any individual who:
>
> (A) is 24 years of age or older by December 31 of the first calendar year of the award year;
>
> (B) is or has been an orphan or ward of the court;
>
> (C) is a veteran of the Armed Forces of the United States;
>
> (D) is a graduate or professional student;
>
> (E) is married or has legal dependents;
>
> (F) is an undergraduate student who was not claimed by his or her parents (or guardian) for income tax purposes for the two calendar years preceding the first calendar year of the award year, and who either was awarded assistance under this title as an independent student in the prior year, or demonstrates to the student financial aid administrator total self-sufficiency during the 2 calendar years preceding the first calendar year of the award year by demonstrating annual total resources (including all sources other than parents and student aid) of $4,000; or
>
> (G) is a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances.

Discussion: The Committee noted that concern and confusion exist about the definition of first year in which aid is first received (initial year). The Department contends that the legislation fixes the initial year at 1987-88, if aid is received in that year.

Establishing 1987-88 as the initial year requires students to demonstrate receiving $4,000 in resources in 1985 and 1986 and also requires an additional set of questions each year. Establishing 1987-88 as the initial year, if aid was received in that year, effectively precludes unmarried undergraduates under 24 years of age from becoming independent.

Although a member of Congress responded to this interpretation by indicating that the Department's position is inconsistent with congressional intent, the implications of the alternative interpretation are not wholely satisfactory. Congressman William D. Ford, in his March 3, 1988, letter to Secretary Bennett, indicated that Congress intended the same two years should be considered for student resources and being claimed as a tax exemption. However, since student aid is contained in the definition of resources, virtually all students attending high cost institutions could become independent in their third and fourth years exclusively as a result of student aid (if they were not claimed as an exemption by their parents). This independency "creep" could have significant implications for the distribution of Federal and possibly state and institutional aid across types of students and institutions.

Requiring that married and graduate students not be claimed as exemptions adds questions to the form without significantly reducing the number of otherwise dependent students who are considered independent. The College Scholarship Service reports that less than 1,000 students in approximately 2.6 million are married dependent students who would become independent based on this change alone. Approximately 9 percent of graduate students are dependent and would become independent. This represents less than 1 percent of all CSS applicants. The American College Testing Program reports that less than 1 percent of its applicants are married dependent students who would become independent. Further, approximately 8 percent of the graduate students are dependent students who would become independent, although this represents only 1 percent of all ACT applicants. It is important to note that these statistics do not represent the programs as a whole, but rather give indications of what the effect would be on a portion of the population.

The statutory language recommended by the Committee will:

- Eliminate confusion concerning the year under consideration for demonstrating $4,000 in resources;

- Reduce the number of questions on the application form by two and simplify the process for married and graduate students without enfranchising large numbers of previously dependent students.

- Permit students who are legitimately self-supporting to demonstrate independence by earning at least $4,000 per year;

- Simplify the process by permitting students who once are determined to be independent through the criteria in the Act, including professional judgment, to avoid repeated demonstration of independency thereby reducing burden on students and institutions; and

- Avoid reclassifying large numbers of otherwise dependent students at high cost

institutions as independent, based solely on aid, while grandfathering students considered independent under the prior definition.

The Committee believes that the recommendation is consistent with the intent of Congress. In addition, the recommended language simplifies independency determination and minimizes what the Committee believes to be unintended redistributional efforts of the current definition.

Independent Student Maintenance Allowance

Description: The Congressional Methodology (CM) includes a standard maintenance allowance (SMA) for independent students with dependents, previously excluded from the Uniform Methodology (UM) but accommodated through institutional budgets.

Low income students, whose income is less than the SMA, may lose substantial amounts of aid if institutions are not permitted to adjust cost of attendance on an individual basis. However, the Department's current interpretation restricts the ability of institutions to do so, despite clear statutory language in section 479A of the Act which permits such adjustments.

Action: The Committee recommends to the Congress and the Secretary that institutions explicitly be permitted discretion in adjusting cost of attendance for individual students as is necessary and appropriate to address these and other unanticipated problems.

Discussion: The CM altered the means of accounting for the costs for maintaining the family of an independent student. The CM, in many ways, brought the treatment of independent students into conformity with the treatment of dependent students. For independent students with dependents, this means that the costs of maintaining and supporting a family, previously determined by institutions and contained in institutional student aid budgets (cost of attendance), are now used in the CM to determine family contribution. Including this SMA in the CM has eliminated the need, and ability, to have institutional budgets based on independent student family size. As long as income is greater than or equal to the SMA, the CM operates relatively efficiently, potential difficulties arising from regional differences in living costs notwithstanding.

However, for independent students whose income is less than the SMA, potentially serious problems arise. Since the SMA has been eliminated from the cost of attendance, these students are left with a hidden need gap. This occurs because all students whose income is less than the SMA will have a zero contribution from income regardless of the amount of their income. The difference between the SMA and the student's income was previously recognized in the cost of attendance as family maintenance costs, and therefore identified as part of the student's need. The current calculation does not permit recognition of this difference (i.e., the hidden need gap), except in individual circumstances.

Recently, however, the Department has determined that institutions do not have discretion to include family maintenance costs for students because they are not explicitly included in the Act. Such a position is contrary to the relatively unfettered discretion historically permitted under the Higher Education Act and clear statutory language in section 479A of the Act. The language in this section states

that "nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator...to make necessary adjustments to the cost of attendance...."

In addition, Senator Paul Simon and Congressman Ford have written Secretary Bennett concerning the Department's narrow view of dependent care (SMA). Both contend not only that it was not the intent of Congress to restrict institutions' discretion with regard to the construction and modification of student aid budgets (cost of attendance) but also that the Department is specifically prohibited from rulemaking with regard to need analysis and cost of attendance. The Committee concurs that Senator Simon and Congressman Ford's interpretations would restore the discretion traditionally permitted institutions in addressing individual needs and circumstances, and avoid penalizing low income students with families, a subpopulation that clearly must be the full and equal beneficiaries of Federal student aid.

Treatment of Veteran's Benefits

Description: The treatment of veteran's benefits under Title IV varies by program (e.g. Pell Grant and campus-based) and type of student (dependent and independent). In addition, some are referenced in the Act but others are governed by regulations. The inconsistency of treatment results in complicated administrative procedures for dealing with veteran's benefits.

Action: The Committee recommends to Congress the consistent treatment of veteran's benefits by considering all veteran's benefits as resources in awarding aid and deleting these benefits from relevant sections of the Act dealing with the Pell Grant Family Contribution Schedule and the CM for all students. The Committee also recommends that the Secretary retain these data elements on all applications for Federal aid. The relevant sections of the Act include 411B(d)(1)(D), 411C(c)(1)(C), and 411D(c)(1)(C) for the Pell Grant Program and 476(b)(1)(D) and 477(a)(1)(C) for the CM.

Discussion: The creation of the CM in the reauthorization altered an existing consistency between Pell Grant and the UM concerning the inclusion of veteran's benefits in both formulae, although they treated them differently. Currently, as in the past, the Pell Grant formula includes one-half of certain of these benefits. In contrast, CM excludes all such benefits for dependent students but includes these benefits for all independent students. For example, such benefits are included for independent students with dependents and subjected to a 22 to 47 percent marginal assessment. Benefits not included in the formula are required by regulation to be treated as resources in determining awards. Further, certain benefits appear to be omitted from the legislation, but are included in the Department's campus-based and GSL regulations. Although the Department is developing a "Dear Colleague" letter to provide guidance to institutions, confusion is pervasive and the administration of benefits, even after the Department's guidance, will be cumbersome.

Treating all veteran's benefits consistently will eliminate much confusion, streamline the related administrative processes, and most likely not result in significant cost increases in any of the programs. The most recent available Department Pell Grant data (1985-86) indicate that 1.4% of recipients report benefits. The mean award for recipients reporting benefits is $1,223 and the mean value reported is $3,695. The

number reporting benefits likely has declined since that time. Thus, the potential Pell Grant Program costs would not be large. Data were not readily available with which to access the likely cost impact on the campus-based and GSL programs. However, the Committee anticipates that there would be no cost implication in the campus-based programs, although minor redistributional consequences are possible, and small cost increases for the GSL Program.

The Committee recommends retaining these data on the form, however, since the elimination of these data from the application could require institutions to collect the data independently and cause increased burden.

Term-Time (Award Year) Earnings

Description: The change from expected to base-year income in the CM as the basis for computing independent student contribution has caused a conflict between the Act [section 443(b)(4)] and Departmental regulations, as well as within the Act itself. This results in potential double or triple counting term-time (within award year) earnings as within year resources, and base year earnings and assets in the next year.

Action: The Committee recommends to the Congress and the Secretary that institutions' responsibility for monitoring term-time or within award year, non-need-based earnings be discontinued and these earnings be considered as base year earnings for the next academic year. Any earnings that are part of an aid package (e.g. CW-S or another need-based work program) will continue to be monitored as within year resources, but not considered as base year income or assets in the next year. Section 443(b)(4) of the Act could be amended as follows to achieve this:

> (4)provide that for a student employed in a work-study program under this part, at the time income derived from any need-based employment (including non-work-study or both) is in excess of the determination of the amount of such student's need by more than $200, contained employment shall not be subsidized with funds appropriate under this part;

Discussion: The use of base year income for the determination of family contribution for all students creates a conflict within the Act and between the Act and the Department's existing regulations concerning the treatment of term-time or within academic year earnings. Section 443(b)(4) of the Act requires that institutions discontinue student work-study funding if a student's earnings exceed his or her need by more than $200. Current regulations also require that these earnings be counted as resources in determining other awards within the award year under consideration. Thus, a student's need and potentially his or her awards would be reduced by the amount earned within that year. Under the CM, however, a portion or all of these same earnings would be considered part of base year income and would be used again as a resource in paying for education. The result would be double-counting or taxation of these earnings.

Altering the regulations that require institutions to monitor and consider these earnings in awarding aid would restore a long-standing principle for the Title IV programs, the avoidance of double-counting resources. The Department is moving to issue regulations on the matter at this time which will address the problem within a

regulatory context. In addition, the Congress must change section 443(b)(4) of the Act to eliminate this problem.

Suggested Improvements

The Committee considered two issues that members urge the Congress to examine, including:

- Displaced homemaker and dislocated workers; and
- Apparent inconsistency between the tax code and the Higher Education Act concerning the simplified needs test.

Both issues are discussed below. In considering each, the Committee based its judgments on principles of equity, simplicity and efficiency, which the Committee endorses.

The Committee acknowledges the importance of identifying displaced homemakers and dislocated workers, and recognizes the plight of these groups which have particularly great needs for access to postsecondary education. The Committee explicitly supports special attention and treatment for these groups, along with many others with special circumstances. The Committee wishes to express its concern, however, regarding the identification of these groups in the formulae and on the form. The Committee recommends removal of these categories and the associated questions from the form, but recommends explicit citation of these categories and the appropriate treatment (e.g. use of expected year income and exclusion of home assets) within the section of the Act dealing with professional judgment.

The questions needed to identify both groups adds about a dozen questions to the form and increases respondent burden. The Committee believes that elimination of these categories and associated questions from the form will achieve the intended goal--special treatment for two needy and worthy groups-- while simplifying the form and keeping such treatment where it has traditionally been located, within professional judgment.

The Committee also noted conflict between the tax code and the requirement of the Higher Education Act with regard to the simplified need analysis. The Committee urges Congress to examine this issue and consider resolving the conflict between the laws. The tax code requires students to report certain types of income (e.g. fellowships, etc.) on IRS Form 1040, although they otherwise may be able to use the 1040EZ or 1040A. This has the effect of precluding them from using the simplified need analysis, although they otherwise may qualify. This appears to the Committee to conflict with Congressional intent by unnecessarily restricting applicants' ability to use the simplified needs analysis. The Committee also is aware that the removal of the tax form restriction from the Higher Education Act may have the unintended consequence of eliminating from consideration in need analysis sizeable assets of wealthy families whose adjusted gross income is reduced through legitimate tax deductions. The Committee will investigate this issue and report to Congress at the earliest time.

Comments on Notices and Proposed Rules

The Committee considered at its April meeting, two notices recently published in the *Federal Register*, including:

- Notice soliciting comments on the Federal Student Assistance Report; and
- Proposed regulations defining Displaced Homemaker.

Federal Student Assistance Report

The Committee supports the intent of Congress with regard to identifying all Federal aid for the student and his or her family through a Federal Student Assistance Report (FSAR). This has the effect of clearly communicating the Federal government's support for access to higher education and may increase student awareness concerning the source of aid, especially loans. However, the Committee is concerned about the added burden on institutions and the degree to which the FSAR duplicates existing requirements and practices of informing students of all aid including non-Federal aid, awarded through an institutional award letter. The FSAR likely would be provided to students in addition to the institutional award letter.

The Committee proposes that section 483(f) of the Act concerning notice of student aid receipt be altered to achieve Congressional intent on notification and that the FSAR be eliminated from the legislation. The Committee proposes that the following language be inserted:

> (f) NOTICE OF STUDENT AID RECEIPT.--Each eligible institution shall provide to each recipient of assistance under this title (except assistance received under subparts 4,5, and 7 of part A), a statement listing the estimated student assistance received by the recipient, and specifying the amount and type of assistance awarded under this title and specifically indicating that such aid is Federally supported assistance. (Emphasis added)

Displaced Homemaker

The Department has proposed regulations that clarify the statutory language "substantial number of years" for the purpose of determining whether an applicant qualifies as a displaced homemaker. These regulations define the term as "at least five years." In general, the Committee supports this definition. However, the Committee offers one caveat concerning the definition of work. Work that is a mandatory or otherwise part of public assistance, e.g. "workfare," should be excluded from consideration under the statute and regulations. Specifically, a homemaker on public assistance who has been required to work as part of a welfare program should not be denied the treatment accorded others who have not benefited from regular employment. The Committee supports the definition of "substantial number of years," the recommendation to remove the classification from the application form, notwithstanding.

Issues for Further Study

The Committee has identified a series of salient issues, both statutorily mandated and suggested by Committee members, which it will study and report to Congress, including:

- The selection of multiple date entry processors;
- The practice of institutional lending;
- The Secretary's and other simplification proposals;
- The Secretary's GSL default initiative;
- The effects of the Congressional Methodology; and
- The degree to which the student aid programs serve various student groups.

The Act requires that the Committee examine and recommend the number and type of multiple data entry (MDE) processors and assess the impact on students, assess and make recommendations on the relative cost of processing applications and development fees, and make recommendations concerning a standardized fee for reimbursement of all processors. The Committee has begun the process of addressing each aspect of its charge. Senior Department officials from the Office of Student Financial Assistance briefed the Committee at its April meeting. The Committee is awaiting the Department's response on a number of issues. In addition, the Committee has directed the staff to begin work on the topic immediately. The Committee anticipates that a report and final set of recommendations will be sent to Congress and the Secretary by summer, 1988.

The Act also requires that the Committee undertake a study of policy and other issues related to institutional lending under the provisions of the Act. The Committee directed the staff to immediately begin developing a study design and a plan for obtaining the necessary services to conduct the study. The Committee plans to consult with the Congress concerning the design of the study no later than early summer, 1988 and anticipates delivery of a report to the Congress by June, 1989.

The Committee will examine several aspects of the Secretary's proposal to remove non-liquid assets from the formulae, and other alternatives, most importantly the redistributional consequences of this proposal and the effect on applicant burden and accuracy of delivery. On this issue the Committee plans to report to the Congress by fall, 1988.

The Committee will address the effects of the Secretary's GSL default initiative, scheduled to be released as proposed rules in the near future. Particular emphasis in our assessment will be placed on the balance between achieving default reductions and maintaining access.

In addition, the Committee directed the staff to assess the CM since the potential effects of the new need analysis formula are becoming apparent. These include primary effects, such as redistribution of perceived need between dependent and independent students, and across the income distribution. Further, these redistributional effects may have secondary effects on the structure of the delivery system. Early survey data indicate that as many as 16 states are considering or have decided to retain the uniform methodology for independent students or for all students because of the budgetary impact on state grant programs and the redistribution that the CM appears to cause across students and institutions. If these early data are accurate, they portend significant and potentially detrimental implications for the delivery system. The Committee staff immediately will undertake an examination of the impact of the CM and report to Congress no later than the fall of 1988.

Finally, the Committee expressed its intent to determine the degree to which specific subpopulations such as low income, minorities, the handicapped, and foreign students benefit from access to higher education, particularly through student aid. The Committee's research agenda which will be shared with the Congress in June, 1988, will provide a plan for analysis of these and other issues.